There are times when reading the market trends and market psychology using specific metrics seems as effective as Roman soothsayers reading entrails. However, if you carefully pick the indicators, understand their limitations and use them in tandem, you will be much better positioned to spot the market’s mood and adjust for what that mood means for your positions.

*Jason Van Bergen, “How to Read the Market’s Psychological State,” Investopedia*

Brad and his team were building a mental picture of the financial markets after the crisis. The market was now a pure abstraction. It called to mind no obvious picture to replace the old one that people still carried around in their heads. The same old ticker tape ran across the bottom of the television screens—even though it represented only a tiny fraction of the actual trading. Market experts still reported from the floor of the New York Stock Exchange, even though trading no longer happened there.

*Michael Lewis, Flash Boys: Cracking the Money Code (2014)*

In the bull market leading up to the dotcom crash of 2000 and in the years since the global financial crash of 2007, amateur trading on the stock market has reached unprecedented levels.¹ This army of do-it-yourself day traders are, for the most part, self-trained, often relying on websites, blogs, and the rolling financial advice dished out on television channels such as CNBC. Despite the many changes in the technology and the media of finance over the course of the last century,
instructions for the nonexpert on how to “read the market” tend merely to echo the fledgling financial advice from the (first) Gilded Age. The recommendation is still to carefully watch the prices coming over the ticker tape—now digital and symbolic, rather than analog and literal—in order to tune into the mind of the market and perceive the hidden patterns that are invisible to the untrained eye:

Learn to follow the market’s price action and read the signals it gives. This can become a strict discipline in itself and the result will be greater confidence that a trade is or is not working. . . . If we are watching a high, low, or opening price as a pivot point, we are watching to see whether there is any impulsive price action as the market approaches the point or moves further away from it. What is “impulsive action?” I like to call it a “whoosh.” The market moves rapidly as if just coming to life for the first time. It is usually a series of ticks in one direction without a tick in the opposite direction. The market is tipping its hand. 

Despite most of these forms of technical analysis and chart reading having been shown by academic financial economists to be based on flawed statistical analyses, many of the old nostrums of tape reading continued to be trotted out as fact; indeed, in some cases the authors explicitly reference favorites from the turn of the twentieth century, such as Charles Dow and Richard Wyckoff.

As with the vernacular financial advice explored in this book, the twenty-first-century equivalents insist that market reading involves intense discipline and watching. “By making it a habit to read the market every day, five days a week,” one website advises, “you’ll be able to make a good call on its health.” The writer warns that “the market’s health and direction could alter in the space of 24 hours, which is why you should remain vigilant at all times. If you take your eye off the market, you may miss out on the opportunity of getting in when a new uptrend has been established.” Yet the approach to be adopted is not simply becoming a hypervigilant and hyperrational watcher of the market’s health, like a financial physician who is permanently on call. As we saw in the advice manuals for the lay investor from the turn of the twentieth century, market reading is still considered more an art than a science, more mystique than technique. One blog notes that “regarding tape reading, it truly requires the ‘gift of touch.’” It is necessary to cultivate a peculiar habit of being in which the self is merged with the fluidities of the market in a quasi-mystical fashion: one website recommends “creating the perfect mindset that can handle unusual and uncertain liquid trading environments.” Successful trading, according to this and other guides, involves moving beyond rational knowledge: “[It] is not about knowing. Trading is about acting on situations, patterns, and signals that you are familiar with. This
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all comes from experience, proper training, and something that you and I call *intuition.* The appeal of such advice literature remains resolutely populist, selling the promise that the investor of small means can learn the tricks required to be able to compete with the big players, the insiders. One blog counsels that “it pays to watch what the big players are doing,” and it is tape reading that can level the playing field: “Price and volume charts can help you to see what the professional investors are doing, allowing you the opportunity to follow in the large investors’ footsteps.”

Another striking similarity between these autodidactic homilies and their forerunners from a century ago is the way in which they animate and personify the market, often as a divine being whose mood and intentions can be augured by its adepts. For those with the strict discipline to follow its signs, it is possible to see how the “market moves rapidly as if just coming to life for the first time,” and, for those able to interpret this, the market is “tipping its hand.” Electronic trading may now be completely anonymous, but the market that is created by this trading is considered to be a person. One website giving advice on “How To Read The Market’s Psychological State,” for example, encourages its readers that, “if you carefully pick the indicators, understand their limitations and use them in tandem, you will be much better positioned to spot the market’s mood.” We have also become accustomed to hearing bankers, economists, and other soothsayers reading the entrails of financial data to interpret the whims and moods of the market god. This deity is usually portrayed as far more inscrutable than the more homely creature imagined by the day-trading gurus, sometimes seeming like a wrathful god, and at others as a “skittish” creature that might easily be spooked: “One reason the market acted so skittishly Monday is that it simply can’t wait six weeks or so before the government is ready to start buying the first $250 billion worth of toxic securities from troubled firms. In normal times, this would seem blazingly fast. In these compressed times, it seems terribly slow. The markets want to know—right now—whether the bailout plan will work.”

At times, it comes to seem as if the projected authority of the financial markets—simultaneously reified and personified, made to seem both impersonal and highly idiosyncratic—is dictating events, here hurrying the U.S. government into a huge bailout for troubled banks, or there demanding a hasty sacrifice from the Greek people in order to appease the inscrutable gods of finance.

The techniques, rhetoric, and ideology of popular modes of “reading the market” have remained remarkably consistent across a century. Yet there are significant differences. Most importantly, the very notion of “the market” has become a highly charged term. It no longer refers simply to a particular stock exchange,
or even to the stock market in general. Instead, it is the preferred term of neoliberalism, which has fetishized the idea of an omnipotent, omniscient, ubiquitous market that is wiser than any individual, wiser, even, than any collective political consideration: the market knows best.12 Second, at the turn of the twenty-first century, the lives of a much greater percentage of ordinary Americans have become caught up in the dramas of finance than those at the turn of the twentieth century: more than half the nation is invested in the stock market in some form (usually through their retirement pensions), while many more in the lead-up to the subprime mortgage crisis came to think of their homes as fungible investments.13 Indeed, with the massive public bailouts of banks and corporations, and the ensuing Great Recession, there are few whose everyday lives have not been affected by the opaque world of global finance. Third, the scale and significance of finance has increased dramatically. After a high point of 4 percent in the 1920s, by 1940, only 2 percent of the overall gross domestic product came from finance; by 2000, it was 8 percent. These figures are more extreme if we consider the share of business profits. In the 1950s and 1960s, between 10 and 20 percent of total profits in the U.S. economy came from the financial sector, but by 2001, 40 percent of total profits originated there.14

As became clear in the wake of the 2007 crash, the world of shadow banking has grown to a scale that is hard to comprehend. In the eyes of many commentators, it is a crazed, self-replicating machine that has become uncoupled from the so-called real economy. By 2007, the international financial system was trading derivatives valued at one quadrillion dollars per year. This is ten times the total worth, adjusted for inflation, of all products made by the world’s manufacturing industries over the last century.15 Farmers in the late nineteenth century were mystified by how futures contracts for grain that were traded on the Chicago Board of Trade far exceeded the amount of wheat actually grown, but the scale and secrecy surrounding derivatives contracts now makes their fears about “wind wheat” seem quaint. (The popular political response to the 2007 crash and subsequent sovereign debt crisis at times contained direct echoes of the late nineteenth century, however, with calls to outlaw speculative practices such as short selling.16) The global financial system has now reached a level of abstraction and opacity that is hard to comprehend, let alone regulate. The market increasingly consists of complex mathematical formulas, embedded in computer code, caroming around the world at close to the speed of light. The development of algorithmic trading in general, and high-frequency trading (HFT) in particular, has opened up the specter of machines trading with other machines at a speed that mere humans are incapable of following or controlling.17 In the “flash crash” of 6
May 2010, 9 percent of the value of the Dow Jones was wiped off within minutes as an exponential chain reaction of machine-generated selling caused the market to crash, only for it to rebound equally rapidly and inexplicably. As Michael Lewis explains in *Flash Boys: Cracking the Money Code*, trades are now conducted at a speed measured in nanoseconds (one-billionth of a second), far beyond the capability of humans—and even the investigatory powers of regulators—to comprehend. Lewis describes how members of the banking team he focuses on “were building a mental picture of the financial markets after the crisis”: “The market was now a pure abstraction. It called to mind no obvious picture to replace the old one that people still carried around in their heads. The same old ticker tape ran across the bottom of the television screens—even though it represented only a tiny fraction of the actual trading. Market experts still reported from the floor of the New York Stock Exchange, even though trading no longer happened there.”

It is arguable, however, that technological changes have always outstripped the ability of the popular imagination to make sense of the market, and the latest developments are not, in this regard, any different from previous ones. It has always been the case that speed gains you an advantage in the market. Despite the mantra of the efficient market hypothesis—that the market already knows any relevant information in advance and factors it into the current price—insiders have habitually attempted to rig the market in their favor. The stock exchange has never been the free, transparent, perfectly functioning market that its neoliberal champions have claimed.

The idea that the market has reached a level of “pure abstraction” has now become commonplace. While there is some truth to this observation, it ignores the way in which the market—even a market created by high-frequency trading—continues to be depicted in popular rhetoric as an animal, person, god, or force of nature. The impersonal market, as we have seen in this volume, is repeatedly made intelligible by concretizing its abstractions. As Paul Crosthwaite argues, though, the effect of these anthropomorphic figurations is “paradoxically affirm-ative, because they imply that these autonomous and largely unregulated systems [of HFT], with the potential to generate devastating financial convulsions, should be treated not merely as lying outside the scope of human deliberation and intervention, but as ‘natural’ and unchangeable facts of life.” Likewise, presenting the stock market as a self-contained and self-regulating ecosystem—albeit one prone to cataclysmic natural disasters—fails to recognize the crucial role of the state in creating, sustaining, and subsidizing the free market.

When popular accounts of finance are not framed in terms of abstraction or anthropomorphization, they tend to focus on the individual human dramas of
greed, fear, and contagion as ways of explaining the chaotic movements of the market. Rationales for the crash of 2007 thus tend to rely on a handful of basic narratives, which, at their heart, either blame the system or blame individuals. On the one hand, there are accounts that speak in terms of systems and processes: it was a “black swan” event that could not have been predicted, or it was the result of the structural flaws in the banking system that should have been foreseen. Other explanations point the finger at particular people or human characteristics: it was the recklessness of individual bankers, or the inevitable “madness of crowds,” or the greed of the American public in wanting to live beyond their means. As in the first Gilded Age, however, some of the most compelling popular ways of making sense of the market in general, and financial crashes in particular, work by making the mystifying abstractions concrete and personal. Drawing on images and narratives whose pedigree dates back to the turn of the twentieth century, these vernacular modes of reading the market have never been so necessary, nor so fraught.